

Scottish Power UK plc

**Directors' Report and Accounts
for the year ended 31 March 2002**

Registered No. 117120



Scottish Power UK plc
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for the year ended 31 March 2002

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Scottish Power UK plc

Report of the Directors

The directors present their report and audited Accounts for the year ended 31 March 2002.

Activities and review

ScottishPower UK plc principally acts as a holding company of companies involved in the generation, transmission, distribution, trading, and supply of electricity and the supply of gas.

The decision to withdraw from the loss-making UK Appliance Retailing business was announced in June 2001, with the disposal of part of the business to Powerhouse Retail finalised in October 2001 and the closure of the remaining operations now complete. On 28 January 2002, the group disposed of Thus Group plc to Scottish Power plc. Thus provides data and telecoms, internet and call centre services, operating throughout the UK and wholly focused on the corporate and small and medium enterprise markets. The proposed sale of Southern Water to First Aqua Limited was announced on 8 March 2002. The group's involvement in the provision of water and wastewater services ceased on 23 April 2002 when the sale was completed.

Prior to 1 October 2001, an exercise was undertaken to achieve legal separation of Scottish Power UK plc's businesses in response to regulatory and strategic drivers. As a result, and pursuant to provisions in the Utilities Act 2000 administered by the Department of Trade and Industry (DTI), certain assets and liabilities relating to the Generation, Trading, Supply and Power Systems businesses were transferred to subsidiary companies on 1 October 2001 at net book value. The consideration was satisfied by intra-group loans. This restructuring had no impact on the net assets of the group.

Results and dividend

The loss of the group for the year amounted to £1,006.8 million (2001 profit £397.5 million), details of which are shown in the Profit and Loss Accounts on pages 16 and 17.

The directors declared and paid dividends amounting to £nil (2001: £311.1 million) in respect of the year, and the retained loss for the year of £1,006.8 million (2001: retained profit of £86.4 million) was transferred to reserves.

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Report of the Directors (continued)

Future developments

A number of strategic decisions are being implemented in order to meet the challenges in the market. Scottish Power UK plc intends to focus primarily on energy markets, and will recycle its capital into profitable, growing activities. It will build on the value chain connecting fuel, generation, commercial and trading, and energy supply businesses. It will also continue to make selective acquisitions that create value and growth through these activities and where it can deploy its skills at transforming wires businesses.

Research and development

Scottish Power UK plc supports research into the development of the generation, transmission, distribution and supply of electricity. It also continues to contribute on an industry-wide basis towards the cost of research into electricity utilisation and distribution developments. In financial years 2001/02 and 2000/01 expenditure on research and development in the group was £3.1 million and £4.2 million, respectively.

Environmental policy

The ScottishPower group expects to publish its 2002 Corporate Environment Sustainability Report in July 2002. Scottish Power UK plc will meet, or better, relevant legislative and environmental requirements and codes of practice.

Directors and their interests

The directors who held office during the year were as follows:

Charles Berry	
David Nish	
Alan Richardson	(resigned 31 December 2001)
Sir Ian Robinson	(resigned 4 May 2001)
Ian Russell	
James Stanley	(appointed 12 September 2001)
Ken Vowles	(resigned 31 March 2002)

Ronnie Mercer was appointed a director on 9 April 2002.

Scottish Power UK plc

Report of the Directors (continued)

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. The interests of the directors (other than those directors who are also directors of the parent company) in the shares of Scottish Power plc, at the beginning (or date of appointment, if later) and end of the year were as follows:

James Stanley (Appointed 12 September 2001)	At 1 April	Granted/ appropriated	Exercised	Lapsed	Vested	31 March
	2001	/other net movement				2002
Ordinary Shares (*)	9,883	184	-	-	-	10,067
ESOP Free & Matching Shares (#)	254	184	-	-	-	438
Deferred Share Plan (†)	2,518	-	-	-	-	2,518
Executive Scheme	37,267	-	-	-	-	37,267
Sharesave Scheme	2,258	-	-	-	-	2,258
LTIP – Potential (**)	48,637	-	-	-	-	48,637
LTIP – Vested	3,869	-	-	-	-	3,869

(*) These shares include Partnership Shares purchased pursuant to the ScottishPower Employee Share Ownership Plan (ESOP).

(#) All Free Shares and Matching Shares appropriated pursuant to the ScottishPower ESOP are held in Trust and are subject to forfeiture provisions during the three year period from the date of appropriation.

(†) Deferred shares represent a portion of performance bonus and are held in Trust until 1 May 2004.

(**) These shares represent, in each case, the maximum number of shares which the directors may receive, dependent on the satisfaction of certain performance criteria as approved by the shareholders of Scottish Power plc in connection with the Long Term Incentive Plan.

As permitted by Statutory Instrument, the Register of Directors' Interests maintained under Section 325 of the Companies Act 1985 does not contain the interests of directors who are also directors of a company of which Scottish Power UK plc is a wholly owned subsidiary. Accordingly, the interests of Charles Berry, David Nish, Ian Russell and Ken Vowles are disclosed in the Scottish Power plc Annual Report & Accounts / Form 20-F for the year ended 31 March 2002.

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Report of the Directors (continued)

Employees

Equal opportunity

It is ScottishPower's policy to promote equal opportunity in recruitment, employment continuity, training and career development. To support the Policy Statement on Equal Opportunities, specific policies have been introduced on people with disabilities, on sex and race discrimination, and on harassment. In addition, a number of family friendly policies have been introduced including a caring break, enhanced maternity leave, paternity leave and leave for adoption or fertility treatment. ScottishPower is a Gold Card Member of the Employers' Forum on Disability, and also a member of the Employers' Forum on Age and the Equal Opportunities Commission Equality Exchange. The company is also in the process of gaining accreditation for Tommy's Pregnancy Programme and the Two Tick Disability Symbol.

As part of the ongoing development and implementation of its equal opportunities strategy, the group has designed and implemented an Equality Framework, which is used to audit and undertake action plans on an annual basis. Actions arising from these plans are discussed in the Company Equality Forum.

Employee consultation and negotiation

ScottishPower has employee consultation and communication arrangements to encourage the involvement and interest of employees in the company, and to develop an awareness of its business plans and objectives. These include divisional and local joint bodies, designed to provide regular discussions between management and staff representatives, and local annual conferences. The company executive and managing directors and the recognised trade unions meet formally twice a year to discuss aspects of the business.

Divisional and business bargaining arrangements have been established to facilitate the development of terms and conditions of employment tailored to the diverse needs of the business and, through this, to provide employees with a greater involvement in local employment matters.

Health and safety

ScottishPower's safety strategy is based on a system of corporate determination of strategy, policy and auditing standards, with devolved responsibility for implementation and active leadership from the highest levels.

Scottish Power UK plc

Report of the Directors (continued)

The group continues to manage its operations throughout the organisation to the highest health and safety standards, in the interests of staff, customers and members of the public.

The group has a well-established occupational health service and lifestyle health care programme. The employees therefore benefit from some of the best occupational health facilities in the United Kingdom.

Financial instruments and risk management

Overview

The main financial risks faced by the group are interest rate risk, inflation risk, foreign exchange risk, liquidity risk, energy price risk and insurance risk. The Scottish Power plc Board (“the Board”) has reviewed and agreed policies for managing each of these risks as summarised below. Scottish Power UK plc has implemented these policies as part of the Scottish Power plc group. In order to mitigate the risks identified, the Board has endorsed the use of derivative financial instruments. The derivative financial instruments endorsed for use by the Board include swaps, both interest rate and cross currency, swaptions, caps, forward rate agreements, financial and commodity forward contracts, commodity futures and commodity options.

Risk management

Energy risk is governed globally by the Scottish Power plc Group Risk Management Committee (“GRMC”), chaired by the Scottish Power plc Finance Director. The group risk management policies and procedures as well as the UK policies and procedures are designed to create consistent risk measurement, monitoring and management standards throughout the group. The day-to-day monitoring of the level of cover in place is handled by a corporate risk management function, reporting to the Scottish Power plc Finance Director independently of the business. Market exposures are quantified and controlled using a number of different risk measures. These include Value-at-risk (“VAR”) methods. VAR is a statistically-based measure of the potential loss on an exposure over a defined period to a given level of confidence. Additional risk measures are applied to quantify risks beyond the confidence intervals defined in the VAR methodology and volumetric risks in physical positions and their impact on business profits in addition to traded position value.

Electricity, gas and coal trading, within Trading UK, are authorised to carry out activities to manage electricity, gas and coal price risk. Electricity or gas price risk is defined as the possibility that a change in the price of electricity or gas will either reduce the proceeds of electricity or gas sales or increase the costs of electricity or

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Report of the Directors (continued)

gas purchases. Trading UK reports monthly to a risk committee and also reports monthly to the GRMC.

The role of the group's credit function is to set consistent standards for assessing and scoring the credit risk induced by contractual obligations of wholesale trading partners and industrial and commercial clients. A group credit committee provides an umbrella oversight for all credit decisions that affect the UK market. This ensures that each individual business is subject to strict concentration rules. The UK credit committee provides local expertise to enhance the understanding of the credit environment in each geographic location. All decisions are supported by a rigorous reporting of credit exposures and sophisticated credit scoring models.

Credit approvals are subject to periodical and/or event driven reviews. Despite mitigation efforts, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on the Scottish Power UK plc group.

The ScottishPower group treasury is authorised to conduct the day-to-day treasury activities of the group within policies set out by the Scottish Power plc Board. The treasury function reports regularly to the Scottish Power plc Board, through the monthly group financial review and is subject to both internal and external audit.

Interest rate risk management

The group continues to access funding opportunities in the major global markets in a range of currencies at both fixed and floating rates of interest, using derivatives, where appropriate, to convert the obligations and payments into fixed or floating rate functional currency.

The exposure to fluctuating interest rates is managed by either issuing fixed or floating rate debt or using a spectrum of financial instruments to create the desired fixed/floating mix. Flexibility in the fixed/floating mix is maintained by using interest rate caps that protect the group should rates rise, i.e. above the strike price, while maintaining the potential benefit should interest rates fall. The ScottishPower group amended its policy during the year, and now it aims to maintain at least 50% (previously 70%) of its anticipated year-end debt at fixed interest rates. At 31 March 2002, 53% (2001 70%, 5% capped) of the group's debt was either issued as fixed or converted to fixed rates using interest rates swaps.

All treasury transactions are undertaken to manage the risks arising from underlying activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings, i.e. "AA" rated by at least one of the following, Standard & Poor's, Moody's or Fitch. Although the group is potentially exposed to credit risk in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of

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Report of the Directors (continued)

exposure to any one party to levels agreed by the Board. The group does not believe that it is over exposed to any material concentration of credit risk.

Foreign exchange risk management

The group has limited exposure to foreign currencies. Commercial paper and EMTNs issued in currencies other than sterling are fully covered by forward contracts or swaps to convert debt into sterling. Certain limited imports of capital equipment and fuel are denominated in foreign currencies and the sterling cost of these is fixed by means of forward contracts as soon as the company's contractual commitments are known.

The group's main treasury funding company, Scottish Power UK plc, carries out additional hedging activities for other members of the Scottish Power group. Where this is the case, Scottish Power UK plc matches all external transactions with back-to-back internal transactions and no foreign exchange or interest rate risk is retained.

Liquidity risk management

The group's policy is to arrange that debt maturities are spread over a wide range of dates, thereby ensuring that the group is not subject to excessive refinancing risk in any one year. The group had undrawn committed revolving credit facilities totalling £1,000 million, as at 31 March 2002, which provide backstop liquidity should the need arise. This £1,000 million revolving credit facility was cancelled following receipt of the proceeds of the sale of Southern Water in April 2002.

Energy price risk management

NETA was introduced in England & Wales on 27 March 2001, replacing the previous 'Pool' mechanism for the sale and purchase of wholesale power in England and Wales. NETA provides for a bilateral wholesale market, with suppliers, traders and generators trading firm physical forward contracts for bulk electricity supply. In addition, a number of power exchanges for the trading of power futures have been set up, and a 'Balancing Mechanism' created for short-term trading of power. In addition to trading to directly manage our market price exposure in the England & Wales market, the group also manages its price exposure arising from sales within the Scottish market by trading forward contracts.

The balancing mechanism, operated from 3½ hours ahead of real-time (gate closure) up to real-time by the National Grid Company, is used to manage the grid system on a second-by-second basis. Market participants can participate actively in this market through the submission of bids and offers to vary their generation output or customer demand. The mechanism also provides for calculation and settlement of imbalance charges arising from the differences between parties' contract positions and their actual physical energy flows.

Scottish Power UK plc

Report of the Directors (continued)

The group has procedures in place to minimise exposure to uncertain balancing mechanism prices, that is, the possibility that the group will face high charges for shortfalls in physical energy or receive low revenues for surplus physical energy. These procedures involve Trading UK in entering into bilateral contracts for the sale and purchase of energy across a range of time periods to minimise exposure to the balancing mechanism. In addition, our portfolio of flexible generating assets in England and Scotland can be used up to gate closure to further minimise this exposure and also to attract premium income from providing flexible power to the balancing mechanism.

The group has also entered into longer-term (in excess of one year) arrangements to protect against longer-term volatility of power prices. The time periods covered by these longer-term arrangements are reviewed on a continuous basis to provide the desired level of price stability.

The group also has procedures in place to minimise exposure to short-term gas price variations. In a similar manner to our power price exposure management strategy, gas price risk is managed through the use of longer-term (in excess of one year) contracts, contracts with flexible delivery profiles and through the use of flexibility within our portfolio of power generating and gas storage assets.

Cover against volatile spot prices is built up on a rolling basis through the year and, at 31 March 2002, a significant proportion of the group's exposure to power and gas price variations for the following financial year have been covered.

A sensitivity analysis has been prepared to estimate the exposure to market risk related to gas and electricity price exposure of the businesses' portfolio of load, plant and physical and financial instrument derivative positions for electricity. Based on the businesses' gas and electricity price exposure at 31 March 2002, a near-term adverse price change of 10.0% would have a negative impact on pre-tax earnings of £5.8 million in 2002/03 based on the then-current (at 31 March 2002) gas and electricity position over the 12 month period ending 31 March 2003.

Insurance risk management

The insurance industry has undergone dramatic change in the last year which were exacerbated further by the tragic events of September 11 and were characterised by restrictions in available capacity, increased costs and a general narrowing of available coverage.

Despite these changes in the market, the group renegotiated all of its main insurance policies in March 2002. Although there has been an increase in cost and in some areas a narrowing of cover, in other areas it has been possible to enhance the insurance coverage available.

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Report of the Directors (continued)

Creditor payment policy and practice

The group's current policy and practice concerning the payment of its trade creditors is to follow the Better Payment Practice Code to which it is signatory. Copies of the Code may be obtained from the Department of Trade and Industry or from the website www.payontime.co.uk.

The group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts, and to pay in accordance with its contractual and legal obligations. The group's creditor days at 31 March 2002 were 27 days.

Directors' responsibilities

The directors are required by UK company law to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial period and of the profit or loss of the group for that period.

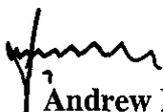
The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements have been made in the preparation of the Accounts for the year ended 31 March 2002. The directors also confirm that applicable accounting standards have been followed and that the Accounts have been prepared on the going concern basis.

The directors are responsible for maintaining proper accounting records, and sufficient internal controls to safeguard the assets of the company and of the group and to prevent and detect fraud or any other irregularities.

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board



Andrew Mitchell

Secretary

1 May 2002

Scottish Power UK plc

Accounting Policies and Definitions

Definitions

Business segment definitions

ScottishPower defines business segments for management reporting purposes based on a combination of factors, principally differences in products and services and the regulatory environment in which the businesses operate.

Business segments have been included under either 'continuing operations' or 'discontinued operations' as appropriate.

The business segments of the group are defined as follows:

Continuing operations

UK Division – Generation, Trading and Supply

The generation of electricity from the group's own power stations, the purchase of external supplies of electricity and gas for sale to customers, together with related billing and collection activities, gas storage, sale of gas to industrial and domestic customers and the sale of electricity to electricity suppliers, in Scotland and England & Wales and full participation in the New Electricity Trading Arrangements ("NETA") in England & Wales.

Infrastructure Division - Power Systems

The transmission and distribution businesses in Scotland and the distribution business of Manweb operating in Merseyside and North Wales and, specifically, the transportation of units of electricity from the power stations through the transmission and distribution networks to customers in Scotland and to customers in Northern Ireland and England & Wales through the Interconnectors.

Discontinued operations

Infrastructure Division - Southern Water

The provision of water and wastewater services in the south-east of England, together with related billing and collection activities. The decision to dispose of the Southern Water business was announced on 8 March 2002 and was completed on 23 April 2002.

Thus

The provision of telecommunications services, internet access and information services to national corporates, small and medium-sized enterprises and residential customers. On 28 January 2002, the group disposed of its shareholding in Thus Group plc ("Thus") to Scottish Power plc.

Appliance Retailing

The retailing and servicing of domestic electrical goods and home entertainment appliances. The business was disposed of and withdrawn from during the year ended 31 March 2002.

Scottish Power UK plc Accounting Policies and Definitions (continued)

Revenue cost definitions

Cost of sales

The cost of sales for the group, excluding Southern Water, reflect the direct costs of the generation and purchase of electricity, the purchase of natural gas, appliance retailing and telecommunications services. For Southern Water, cost of sales represents the cost of extracting water from underground and raw water surface reservoirs and of its treatment and supply to customers and the collection of wastewater and its treatment and disposal.

Transmission and distribution costs

The cost of transmitting units of electricity from the power stations through the transmission and distribution networks to customers. It includes the costs of metering, billing and debt collection. This heading is considered more appropriate to the electricity industry than the standard Companies Act heading of distribution costs.

Administrative expenses

The indirect costs of businesses, the costs of corporate services, property rates and goodwill amortisation.

Other definitions

Company or ScottishPower

Scottish Power UK plc.

Group

Scottish Power UK plc and its consolidated subsidiaries.

Associated undertakings

Entities in which the group holds a long-term participating interest and exercises significant influence.

Joint ventures

Entities in which the group holds a long-term interest and shares control with another company external to the group.

Subsidiary undertakings

Entities in which the group holds a long-term controlling interest.

Parent

Scottish Power plc.

Accounting Policies

Basis of accounting

The Accounts have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards in the UK and, subject to the treatment of water infrastructure grants and contributions described under "Grants and contributions" below, comply with the requirements of the Companies Act 1985.

Basis of consolidation

The group Accounts include the Accounts of the company and its subsidiary undertakings together with the group's share of results and net assets of associated undertakings and joint ventures.

For commercial reasons certain subsidiaries have a different year end. The consolidation includes the Accounts of these subsidiaries as adjusted for material transactions in the period between the year ends and 31 March.

Scottish Power UK plc Accounting Policies and Definitions (continued)

Statement of cash flows

The group is exempt from including a statement of cash flows in its Accounts as it is a wholly owned subsidiary of Scottish Power plc, which has included a consolidated statement of cash flows in its consolidated Accounts.

Turnover

Turnover comprises the sales value of energy, goods, water, wastewater and other services supplied to customers during the year and excludes Value Added Tax and intra-group sales. Income from the sale of energy and measured water is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end.

Interest

Interest on the funding attributable to capital projects is capitalised gross of tax relief during the period of construction and written off as part of the total cost over the operational life of the asset. All other interest payable and receivable is reflected in the profit and loss account as it arises.

Financial instruments

Debt instruments

All borrowings are stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Premiums and discounts arising on the early repayment of borrowings are recognised in the profit and loss account as incurred.

Interest rate swaps/Forward rate agreements

These are used to manage debt interest rate exposures. Amounts payable or receivable in respect of these agreements are recognised as adjustments to interest expense over the period of the contracts. Where associated debt is not retired in conjunction with the termination of an interest swap, gains and losses are deferred and are amortised to interest expense over the remaining life of the associated debt to the extent that such debt remains outstanding.

Interest rate caps/Swaptions/Options

Premiums received and payable on these contracts are amortised over the period of the contracts and are disclosed as interest income and expense. The accounting for interest rate caps and swaptions is otherwise in accordance with interest rate swaps detailed above.

Cross currency interest rate swaps

These are used to hedge foreign exchange and interest rate exposures arising on foreign currency debt. The debt is recorded at the hedge contracted rate and accounting is otherwise in accordance with interest rate swaps detailed above.

Forward contracts

The group enters into forward contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. Unrealised gains and losses on contracts are not accounted for until the maturity of the contract. Foreign currency debtors and creditors that are hedged with forward contracts are translated at the contracted rate at the balance sheet date. Where a currency forward contract no longer represents a hedge because either the underlying asset or liability has been derecognised, or the effectiveness of the hedge has been undermined, it is restated at fair value and any change in value is taken directly to the profit and loss account and reported within exchange losses.

Scottish Power UK plc Accounting Policies and Definitions (continued)

Commodity contracts

Where there is no physical delivery associated with commodity contracts, they are recorded at fair value on the balance sheet and movements reflected through the profit and loss account. Gas future contracts are undertaken for hedging and proprietary trading purposes. Where the instrument is a hedge, the daily margin calls are initially reflected on the balance sheet and subsequently reflected through the profit and loss account to match the recognition of the hedged item. Where the instrument is for proprietary trading the margin calls are reflected through the profit and loss account.

Taxation

In accordance with Financial Reporting Standard 19 'Deferred tax', full provision is made for deferred tax on a non-discounted basis.

Goodwill

Purchased goodwill represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Goodwill arising from the purchase of trading entities in accounting periods prior to 31 March 1998 was written off on acquisition against reserves. On disposal of trading entities, the goodwill previously included in reserves is charged to the profit and loss account matched by an equal credit to reserves. Goodwill arising on acquisitions since 1 April 1998 has been capitalised and amortised through the profit and loss account over its estimated useful economic life.

Tangible fixed assets

Accounting for non-water infrastructure assets

Tangible fixed assets are stated at cost or valuation and are generally depreciated on the straight line method over their estimated operational lives. Tangible fixed assets include capitalised employee, interest and other costs which are directly attributable to construction of fixed assets. Land is not depreciated. The main depreciation periods used by the group are as set out below.

	Years
Coal, oil-fired, gas and other generating stations	22-40
Hydro plant and machinery	20-40
Other buildings	40
Transmission and distribution plant	30-40
Towers, lines and underground cables	40-60
Vehicles, computer software costs, miscellaneous equipment and fittings	3-15

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. For those assets with estimated remaining useful economic lives of more than 50 years, impairment reviews are undertaken annually. Impairment losses are recognised in the period in which they are identified.

Decommissioning costs

Provision is made for the estimated decommissioning costs at the end of the producing lives of the group's power stations on a discounted basis. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within net interest and similar charges.

Infrastructure accounting

Water infrastructure assets, being mains and sewers, reservoirs, dams, sludge pipelines and sea outfalls comprise a network of systems. Expenditure on water infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition to fixed assets.

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Accounting Policies and Definitions (continued)

The depreciation charge for water infrastructure assets is the estimated level of annualised expenditure required to maintain the operating capability of the network and is based on the asset management plan agreed with the water industry regulator as part of the price regulation process.

The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets.

Leased assets

- As lessee

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis.

- As lessor

Rentals receivable under finance leases are allocated to accounting periods to give a constant periodic rate of return on the net cash investment in the lease in each period. The amounts due from lessees under finance leases are recorded in the balance sheet as a debtor at the amount of the net investment in the lease after making provisions for bad and doubtful rentals receivable.

Investments

Investments in subsidiary and associated undertakings and joint ventures are stated in the balance sheet of the parent company at cost, or nominal value of shares issued as consideration where applicable, less provision for any impairment in value. The group profit and loss account includes the group's share of the operating profits less losses, net interest charge and taxation of associated undertakings and joint ventures. The group balance sheet includes the investment in associated undertakings and joint ventures at the group's share of their net assets. Other fixed asset investments are carried at cost less provision for impairment in value.

Shares held in parent company under trust

The amount recorded in the balance sheet for shares in the company's parent company purchased for employee sharesave schemes represents the amounts receivable from option holders on exercise of the options.

The group has taken advantage of the exemption within Urgent Issues Task Force ("UITF") Abstract 17 not to apply the requirements therein to Inland Revenue approved savings-related share option schemes and equivalent overseas schemes.

Long Term Incentive Plan ("LTIP")

Shares in the company's parent company purchased for the LTIP are held under trust and are recorded within investments in the balance sheet at cost. The cost of awards made by the trust under the LTIP, being the difference between the fair value of the shares and the option price at the date of grant, is taken to the profit and loss account on a straight line basis over the period in which performance is measured.

Stocks

Stocks are valued at the lower of average cost and net realisable value.

Grants and contributions

Capital grants and customer contributions in respect of additions to non-water infrastructure fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets. Grants and contributions receivable relating to water infrastructure assets are deducted from the cost or valuation of those assets. While this treatment is in accordance with SSAP 4, it is not in accordance with the Companies Act 1985. The Act requires capital grants and contributions to be shown as deferred income rather than offset against the cost or valuation of tangible fixed assets. This departure from the requirements of the Act is, in the opinion of the directors, necessary for the Accounts to give a true and fair view as, while provision is made for depreciation of water infrastructure assets, these assets do not have

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Accounting Policies and Definitions (continued)

determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in Note 10.

Pensions

The group provides pension benefits through both defined benefit and defined contribution arrangements. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations for defined benefit schemes are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the pension schemes is included as an asset or liability in the balance sheet. Payments to defined contribution schemes are charged against profits as incurred.

Environmental liabilities

Provision for environmental liabilities is made when expenditure on remedial work is probable and the group is obliged, either legally or constructively through its environmental policies, to undertake such work. Where the amount is expected to be incurred over the long term, the amount recognised is the present value of the estimated future expenditure and the unwinding of the discount is included within net interest and similar charges.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, where applicable, at the contracted rate. Any gain or loss arising on the restatement of such balances is taken to the profit and loss account.

Group Profit and Loss Account
for the year ended 31 March 2002

Year ended 31 March 2002

Notes	Exceptional item - continuing operations (Note 4)		Total continuing operations		Exceptional items - discontinued operations (Note 4)		Total discontinued operations		Total 2002 £m
	Continuing operations 2002 £m	2002 £m	2002 £m	Discontinued operations 2002 £m	2002 £m	2002 £m	2002 £m		
	2,392.1	-	2,392.1	756.0	-	-	756.0	3,148.1	
	(22.6)	-	(22.6)	-	-	-	-	(22.6)	
	(0.5)	-	(0.5)	-	-	-	-	(0.5)	
1	2,369.0	-	2,369.0	756.0	-	-	756.0	3,125.0	
	(1,485.0)	-	(1,485.0)	(448.9)	-	-	(448.9)	(1,933.9)	
	884.0	-	884.0	307.1	-	-	307.1	1,191.1	
	(220.9)	-	(220.9)	(25.7)	-	-	(25.7)	(246.6)	
	(273.8)	(18.5)	(292.3)	(135.4)	-	-	(135.4)	(427.7)	
	32.7	-	32.7	2.9	-	-	2.9	35.6	
	-	-	-	13.2	-	-	13.2	13.2	
	426.9	(18.5)	408.4	163.9	-	-	163.9	572.3	
	(4.9)	-	(4.9)	(1.8)	-	-	(1.8)	(6.7)	
1,2	422.0	(18.5)	403.5	162.1	-	-	162.1	565.6	
	2.2	-	2.2	-	-	-	-	2.2	
	0.2	-	0.2	-	-	-	-	0.2	
	424.4	(18.5)	405.9	162.1	-	-	162.1	568.0	
	-	-	-	-	(39.6)	(39.6)	(39.6)	(39.6)	
	-	-	-	-	(14.7)	(14.7)	(14.7)	(14.7)	
	-	-	-	-	(54.3)	(54.3)	(54.3)	(54.3)	
	-	-	-	-	(105.0)	(105.0)	(105.0)	(105.0)	
	-	-	-	-	(15.1)	(15.1)	(15.1)	(15.1)	
	-	-	-	-	(120.1)	(120.1)	(120.1)	(120.1)	
	-	-	-	-	(449.3)	(449.3)	(449.3)	(449.3)	
	-	-	-	-	(738.2)	(738.2)	(738.2)	(738.2)	
	-	-	-	-	(1,187.5)	(1,187.5)	(1,187.5)	(1,187.5)	
	424.4	(18.5)	405.9	162.1	(1,361.9)	(1,199.8)	(1,199.8)	(793.9)	
								(189.5)	
4								1.6	
								(6.2)	
5								(194.1)	
								(981.3)	
								(6.7)	
								(988.0)	
								(79.0)	
4								29.5	
								1.1	
6								(48.4)	
								(1,036.4)	
22								29.6	
20								(1,006.8)	

A statement of total recognised gains and losses is not shown as all gains and losses are recognised in the profit and loss account.

The Accounting Policies and Definitions on pages 10 to 15, together with the Notes on pages 20 to 36 form part of these Accounts.

Scottish Power UK plc

Group Profit and Loss Account
for the year ended 31 March 2001

Year ended 31 March 2001

	Notes	Continuing operations 2001 £m	Discontinued operations 2001 £m	Total 2001 £m
Turnover: group and share of joint ventures and associates		2,299.6	939.5	3,239.1
Less: share of turnover in joint ventures		(11.7)	-	(11.7)
Less: share of turnover in associates		(0.4)	-	(0.4)
Group turnover	1	2,287.5	939.5	3,227.0
Cost of sales		(1,401.1)	(570.4)	(1,971.5)
Gross profit		886.4	369.1	1,255.5
Transmission and distribution costs		(234.5)	(38.4)	(272.9)
Administrative expenses (including goodwill amortisation)		(218.5)	(182.0)	(400.5)
Other operating income		30.2	3.8	34.0
Operating profit before goodwill amortisation		464.0	154.9	618.9
Goodwill amortisation		(0.4)	(2.4)	(2.8)
Operating profit	1,2	463.6	152.5	616.1
Share of operating loss in joint ventures		(9.4)	-	(9.4)
Share of operating profit in associates		0.1	-	0.1
Profit on ordinary activities before interest		454.3	152.5	606.8
Net interest and similar charges				
- Group				(181.7)
- Joint ventures				(2.9)
	5			(184.6)
Profit on ordinary activities before goodwill amortisation and taxation				425.0
Goodwill amortisation				(2.8)
Profit on ordinary activities before taxation				422.2
Taxation				
- Group				(56.3)
- Joint ventures				(1.9)
	6			(58.2)
Profit after taxation				364.0
Minority interests	22			33.5
Profit for the financial year				397.5
Dividends	7			(311.1)
Profit retained				86.4

The Accounting Policies and Definitions on pages 10 to 15, together with the Notes on pages 20 to 36 form part of these Accounts.

Note of Historical Cost Profits and Losses
for the year ended 31 March 2002

	Note	Group 2002 £m	2001 £m
(Loss)/profit on ordinary activities before taxation		(988.0)	422.2
Differences between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount of fixed assets	20	3.4	3.4
Fixed asset revaluation gains realised on disposal	20	168.2	-
Historical cost (loss)/profit on ordinary activities before taxation		(816.4)	425.6
Historical cost (loss)/profit retained for the financial year after taxation, minority interests and dividends		(835.2)	89.8

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 March 2002

	Note	2002 £m	2001 £m
(Loss)/profit for the financial year		(1,006.8)	397.5
Dividends		-	(311.1)
(Loss)/profit retained		(1,006.8)	86.4
Goodwill realised on disposals	20	768.0	-
Net movement in shareholders' funds		(238.8)	86.4
Opening shareholders' funds		1,011.1	924.7
Closing shareholders' funds		772.3	1,011.1

The Accounting Policies and Definitions on pages 10 to 15, together with the Notes on pages 20 to 36 form part of these Accounts.

Scottish Power UK plc

Balance Sheets

as at 31 March 2002

	Notes	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
Fixed assets					
Intangible assets	9	91.9	127.4	-	96.7
Tangible assets	10	6,000.7	6,613.4	65.2	2,358.9
Investments					
- Investments in joint ventures:					
Share of gross assets		119.3	118.4		
Share of gross liabilities		(82.4)	(74.6)		
		36.9	43.8	4.5	57.7
- Investments in associates		5.2	5.0	-	-
- Other investments		28.6	62.7	619.1	1,658.4
	11	70.7	111.5	623.6	1,716.1
		6,163.3	6,852.3	688.8	4,171.7
Current assets					
Stocks	12	61.4	104.5	-	83.9
Debtors	13	743.8	695.0	3,936.0	2,332.9
Short-term bank and other deposits		183.9	130.1	116.3	33.3
		989.1	929.6	4,052.3	2,450.1
Creditors: amounts falling due within one year					
Loans and other borrowings	14	(1,069.5)	(401.7)	(1,058.5)	(375.0)
Other creditors	15	(1,186.2)	(2,075.5)	(664.2)	(1,830.7)
		(2,255.7)	(2,477.2)	(1,722.7)	(2,205.7)
Net current (liabilities)/ assets		(1,266.6)	(1,547.6)	2,329.6	244.4
Total assets less current liabilities		4,896.7	5,304.7	3,018.4	4,416.1
Creditors: amounts falling due after more than one year					
Loans and other borrowings	14	(2,527.9)	(2,596.0)	(2,228.9)	(2,496.3)
Provisions for liabilities and charges					
-Deferred tax	17	(841.2)	(790.4)	(2.8)	(308.7)
-Other provisions	16	(248.5)	(302.1)	(19.1)	(283.5)
		(1,089.7)	(1,092.5)	(21.9)	(592.2)
Deferred income	18	(505.6)	(477.2)	-	(251.0)
Net assets	8	773.5	1,139.0	767.6	1,076.6
Called up share capital	19,20	592.0	592.0	592.0	592.0
Share premium	20	398.2	398.2	398.2	398.2
Revaluation reserve	20	45.5	217.1	-	-
Capital redemption reserve	20	8.2	8.2	8.2	8.2
Profit and loss account	20	(271.6)	(204.4)	(230.8)	78.2
Equity shareholders' funds	20	772.3	1,011.1	767.6	1,076.6
Minority interests	22	1.2	127.9	-	-
Capital employed		773.5	1,139.0	767.6	1,076.6

Approved by the Board on 1 May 2002 and signed on its behalf by



David Nish
Director

The Accounting Policies and Definitions on pages 10 to 15, together with the Notes on pages 20 to 36 form part of these Accounts.

Scottish Power UK plc

Notes to the Accounts
for the year ended 31 March 2002

1 Segmental information

(a) Turnover by segment	Notes	Total turnover		Inter-segment turnover		External turnover	
		2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Continuing operations							
UK Division - Generation, Trading and Supply	(i)	2,160.7	2,099.1	39.3	35.3	2,121.4	2,063.8
Infrastructure Division - Power Systems	(i)	646.6	666.3	399.0	442.6	247.6	223.7
Total continuing operations						2,369.0	2,287.5
Discontinued operations							
Infrastructure Division - Southern Water	(i)	430.6	422.9	0.7	0.5	429.9	422.4
Thus	(iii)	216.0	233.8	22.2	34.4	193.8	199.4
Appliance Retailing	(i)	133.9	325.4	1.6	7.7	132.3	317.7
Total discontinued operations						756.0	939.5
Total	(ii)					3,125.0	3,227.0

(b) Operating profit/(loss) by segment	Notes	Before goodwill amortisation and exceptional item		Goodwill amortisation		Exceptional item		Before goodwill amortisation		Goodwill amortisation	
		2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Continuing operations											
UK Division - Generation, Trading and Supply	(i)	75.4	(4.9)	(18.5)		52.0		122.7		(0.4)	122.3
Infrastructure Division - Power Systems	(i)	351.5	-	-		351.5		341.3		-	341.3
Total continuing operations		426.9	(4.9)	(18.5)		403.5		464.0		(0.4)	463.6
Discontinued operations											
Infrastructure Division - Southern Water	(i)	216.3	-	-		216.3		221.6		-	221.6
Thus	(iii)	(43.4)	(1.8)	-		(45.2)		(58.0)		(2.4)	(60.4)
Appliance Retailing	(i)	(9.0)	-	-		(9.0)		(8.7)		-	(8.7)
Total discontinued operations		163.9	(1.8)	-		162.1		154.9		(2.4)	152.5
Total		590.8	(6.7)	(18.5)		565.6		618.9		(2.8)	616.1

(i) As announced in May 2001, the group operates through three divisions which are different from the segments presented in the prior year's Accounts. The former Generation Wholesale and Energy Supply segments have been combined and the former Other segment (other than Appliance Retailing) has been absorbed into the new business segments. Prior year comparatives have been restated accordingly. The previously reported external turnover and operating profit of the Other segment have been allocated as follows:

	Year ended 31 March 2001	
	External turnover £m	Operating profit £m
UK Division - Generation, Trading and Supply	79.9	(6.3)
Infrastructure Division		
Power Systems	11.1	17.1
Southern Water	0.8	0.4
Appliance Retailing	317.7	(8.7)
Other total	409.5	2.5

(ii) Turnover arises from activities carried out in the UK.

(iii) The segment previously described as 'Telecoms' has been re-designated 'Thus' as historical data for this segment no longer includes data relating to other telecoms operations disposed in prior years.

(iv) As required by the Utilities Act 2000, the group has implemented a new legal entity structure for certain of its UK businesses to give effect to business separation. Following the creation of this new legal structure on 1 October 2001, the directors reviewed the group's segments and concluded that no changes were required to the business segments disclosed above.

2 Operating profit

	2002 £m	2001 £m
Operating profit is stated after charging/(crediting):		
Depreciation and impairment of tangible fixed assets	323.3	276.7
Amortisation of goodwill	6.7	2.8
Release of customer contributions/grants	(17.0)	(14.7)
Research and development	3.1	4.2
Hire of plant and equipment - operating leases	0.1	0.3
Hire of other assets - operating leases	36.1	49.0
Auditors' remuneration for audit of		
- group	0.8	0.9
- company	0.3	0.7
Non-audit fees paid to auditors:		
Regulatory advice	0.3	0.5
Advice on systems and consultancy services	4.9	5.1
Taxation, compliance and advice	1.6	0.6
Due diligence and London Stock Exchange reporting	3.3	0.6
Other audit and assurance services	0.5	-
Total non-audit fees paid to auditors	10.6	6.8

For the year ended 31 March 2002, £9.1 million of the above non-audit fees were charged to operating profit, £0.6 million were charged to exceptional loss on disposal of and withdrawal from Appliance Retailing and £0.9 million were charged to exceptional provision for loss on disposal of Southern Water.

For the year ended 31 March 2001, £6.1 million of the above non-audit fees were charged to operating profit, and £0.7 million were included within the costs of sale of the businesses held for disposal.

Scottish Power UK plc
Notes to the Accounts
for the year ended 31 March 2002

3 Employee information

	2002 £m	2001 £m
(a) Employee costs		
Wages and salaries	309.9	339.2
Social security costs	24.2	28.0
Pension costs	17.4	15.8
Total employee costs	351.5	383.0
Less: charged as capital expenditure	(74.9)	(68.5)
Charged to the profit and loss account	276.6	314.5

(b) Employee numbers

The year end and average numbers of employees (full-time and part-time) employed by the group, including executive directors, were:

	Notes	At 31 March		Annual average	
		2002	2001	2002	2001
Continuing operations					
UK Division - Generation, Trading and Supply	(i)	4,582	4,278	4,589	4,178
Infrastructure Division - Power Systems	(i)	3,084	3,265	3,174	3,332
Total continuing operations		7,666	7,543	7,763	7,510
Discontinued operations					
Infrastructure Division - Southern Water	(i)	2,109	2,138	2,125	2,160
Thus		-	2,686	2,424	2,696
Appliance Retailing	(i)	-	2,946	2,391	2,988
Total discontinued operations	(ii)	2,109	7,770	6,940	7,844
Total		9,775	15,313	14,703	15,354

The year end and average numbers of full-time equivalent staff employed by the group, including executive directors, were:

	Note	At 31 March		Annual average	
		2002	2001	2002	2001
Continuing operations		7,353	7,184	7,391	7,125
Discontinued operations	(ii)	2,056	7,025	6,347	7,049
Total		9,409	14,209	13,738	14,174

(i) As detailed in Note 1, the group operates through three divisions which are different from the segments presented in the prior year's Accounts. The former Generation Wholesale and Energy Supply segments have been combined and the former Other segment (other than Appliance Retailing) has been absorbed into the new business segments. Prior year comparatives have been restated accordingly. The previously reported year end and average number of employees (full-time and part-time) of the Other segment have been allocated as follows:

	Year ended 31 March 2001	
	At 31 March	Annual average
UK Division - Generation, Trading and Supply	101	107
Infrastructure Division		
Power Systems	84	91
Southern Water	35	37
Appliance Retailing	2,946	2,988
Other total	3,166	3,223

(ii) The annual average for 2002 for discontinued operations is calculated for the period prior to disposal. This represents the period to 8 October 2001 for Appliance Retailing and the period to 28 January 2002 for Thus.

(c) Directors' emoluments

Details of the directors' emoluments are set out in Note 27.

4 Exceptional items

	Notes	2002 £m	2001 £m
(a) Recognised in arriving at operating profit			
Continuing operations			
Reorganisation costs	(i)	(18.5)	-
Total continuing operations		(18.5)	-
(b) Recognised after operating profit			
Discontinued operations			
Loss on disposal of and withdrawal from Appliance Retailing	(ii)	(120.1)	-
Provision for loss on disposal of Southern Water before goodwill write back	(iii)	(449.3)	-
Goodwill write back relating to Southern Water	(ii)	(738.2)	-
Loss on disposal of Thus	(iv)	(54.3)	-
Total recognised after operating profit		(1,361.9)	-
Total exceptional items before interest and taxation		(1,380.4)	-
Restructuring of debt portfolio	(iii)	1.6	-
Tax on exceptional items		29.5	-
Total exceptional items (net of tax)		(1,349.3)	-

Year ended 31 March 2002

(i) An exceptional charge of £18.5 million was incurred relating to reorganisation costs for the UK Division - Generation, Trading and Supply and primarily represents severance and related costs.

(ii) An exceptional charge of £120.1 million relates to the loss on disposal of and withdrawal from the group's Appliance Retailing operations. This charge includes £15.1 million of goodwill previously written off to reserves. The pre-goodwill loss of £105.0 million comprises asset impairments of £54.2 million (including a provision for impairment of tangible fixed assets of £32.2 million) and provisions for trading losses and closure costs of £50.8 million, of which £43.5 million had been incurred by 31 March 2002. The loss on disposal and withdrawal from Appliance Retailing is stated before a tax credit of £21.0 million.

(iii) On 23 April 2002, the group completed the sale of Aspen 4 Limited (the holding company of Southern Water plc) to First Aqua Limited for a total consideration, before expenses, of £2.05 billion including repayment and acquisition of intra-group non-trading indebtedness and assumption by First Aqua Limited of Southern Water's non-trading debt due to third parties. An exceptional charge of £1,187.5 million relates to the provision for the loss on disposal of the group's Southern Water business. This charge includes £738.2 million of goodwill previously written off to reserves. The net exceptional finance credit of £1.6 million comprises debt redemption costs offset by net gains made from unwinding the hedging positions entered into in respect of the aborted refinancing of Southern Water. The provision for loss on disposal of Southern Water is stated before a tax credit of £2.9 million.

(iv) An exceptional charge of £54.3 million relates to the loss on disposal of Thus to Scottish Power plc (see Note 29 for details). This charge includes £14.7 million of goodwill previously written off to reserves.

5 Net interest and similar charges

	2002 £m	2001 £m
Analysis of net interest and similar charges		
Interest on bank loans and overdrafts	20.7	35.9
Interest on other borrowings	211.3	170.2
Total interest payable	232.0	206.1
Interest receivable	(8.4)	(4.0)
Capitalised interest	(30.5)	(24.2)
Net interest charge	193.1	177.9
Unwinding of discount on provisions	9.5	6.7
Foreign exchange gain	(6.9)	-
Net interest and similar charges before exceptional items	195.7	184.6
Exceptional interest on bank loans and overdrafts	12.0	-
Exceptional interest credit on other borrowings	(13.6)	-
Exceptional interest and similar charges	(1.6)	-
Net interest and similar charges after exceptional items	194.1	184.6

6 Tax on (loss)/profit on ordinary activities

	Before exceptional items 2002 £m	Exceptional items 2002 £m	2002 £m	2001 £m
Current tax:				
UK Corporation tax	73.3	(23.2)	50.1	72.4
Adjustment in respect of prior years	(54.4)	-	(54.4)	(29.7)
Total current tax (credit)/charge for year	18.9	(23.2)	(4.3)	42.7
Deferred tax:				
Origination and reversal of timing differences	59.0	(6.3)	52.7	50.5
Adjustment in respect of prior periods	-	-	-	(35.0)
Total tax on (loss) / profit on ordinary activities	77.9	(29.5)	48.4	58.2

The current tax (credit)/charge on (loss)/profit on ordinary activities for the year varied from the standard rate of UK Corporation tax as follows:

	2002 £m	2001 £m
Corporation tax (credit)/charge at 30%	(296.7)	126.7
Goodwill amortisation	2.0	0.8
Permanent differences on exceptional items	390.4	-
Losses and other permanent differences	7.1	(4.6)
Adjustments in respect of prior periods	(54.4)	(64.7)
Tax charge on ordinary activities	48.4	58.2
Effect of deferred tax	(52.7)	(15.5)
Current tax (credit)/charge for year	(4.3)	42.7

7 Dividends

	2002 £m	2001 £m
Dividends declared and paid to parent company	-	311.1
Total dividends	-	311.1

Scottish Power UK plc
Notes to the Balance Sheets
as at 31 March 2002

8 Segmental information

Net assets by segment	Notes	2002 £m	2001 £m
Continuing operations			
UK Division - Generation, Trading and Supply	(i), (iv)	873.4	691.2
Infrastructure Division - Power Systems	(i), (iv)	2,070.7	1,979.0
Total continuing operations		2,944.1	2,670.2
Discontinued operations			
Infrastructure Division - Southern Water	(i), (iv)	2,347.6	2,590.4
Thus	(ii)	-	459.3
Appliance Retailing	(i), (iv)	-	55.6
Total discontinued operations		2,347.6	3,105.3
Unallocated net liabilities			
Net debt		(3,413.5)	(2,867.6)
Deferred tax		(841.2)	(790.4)
Corporate tax		(55.8)	(138.7)
Fixed asset investments		70.7	111.5
Other	(iii)	(278.4)	(951.3)
Total unallocated liabilities		(4,518.2)	(4,636.5)
Total		773.5	1,139.0

(i) As detailed in Note 1, the group now operates through three divisions which are different from the segments presented in the prior year's Accounts. Prior year comparatives have been restated accordingly. The previously reported net assets of the Other segment have been allocated as follows:

	Year ended 31 March 2001 Net assets £m
UK Division - Generation, Trading and Supply	27.9
Infrastructure	
Power Systems	2.3
Southern Water	1.5
Appliance Retailing	55.6
Other total	87.3

(ii) The segment previously described as 'Telecoms' has been re-designated 'Thus' as historical balance sheet data for this segment no longer includes data relating to other telecoms operations disposed in prior years.

(iii) Other unallocated net liabilities principally include group loans payable to SP plc and NA1 and NA2 Limited.

(iv) As required by the Utilities Act 2000, the group has implemented a new legal structure for certain of its UK businesses to give effect to business separation. Following the creation of this new legal structure on 1 October 2001, the directors reviewed the group's segments and concluded that no changes are required to the business segments disclosed above. However, they also reviewed the items to be included within each segment's net assets particularly in relation to intra-group balances. The net assets by segment figures above have been presented on this revised basis and comparative figures have been restated accordingly.

9 Intangible fixed assets

Goodwill	Notes	Group £m	Company £m
Cost:			
At 1 April 2001		133.2	97.1
Transfers	23	-	(97.1)
Disposal of Thus	29	(36.1)	-
At 31 March 2002		97.1	-
Amortisation:			
At 1 April 2001		5.8	0.4
Amortisation for the year		6.7	2.4
Transfers	23	-	(2.8)
Disposal of Thus	29	(7.3)	-
At 31 March 2002		5.2	-
Net book value:			
At 31 March 2002		91.9	-
At 31 March 2001		127.4	96.7

(i) The provisional fair values attributed to the acquisition of Rye House in 2000/01, that resulted in goodwill of £97.1million, have not required amendment in the post-acquisition period to March 2002.

Goodwill capitalised relating to Rye House is being amortised over its estimated useful economic life of 20 years. Goodwill capitalised relating to Thus was being amortised over its estimated useful economic life of 15 years.

10 Tangible fixed assets

Group Year ended 31 March 2002	Notes	Land and buildings £m	Water infrastructure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost or valuation:						
At 1 April 2001		1,181.2	1,174.9	5,177.6	954.4	8,488.1
Additions		84.6	76.7	431.5	95.9	688.7
Impairment	(i), (vi)	(6.9)	(306.3)	(136.1)	-	(449.3)
Valuation adjustment	(ii)	-	(109.1)	(207.3)	-	(316.4)
Grants and contributions		-	(9.2)	-	-	(9.2)
Disposals		(12.4)	(0.6)	(30.7)	(90.2)	(133.9)
Disposal of Thus	29	(11.9)	-	(458.2)	(132.3)	(602.4)
At 31 March 2002		1,234.6	826.4	4,776.8	827.8	7,665.6
Depreciation:						
At 1 April 2001		252.7	88.4	1,181.2	352.4	1,874.7
Reclassification		(42.6)	-	42.6	-	-
Charge for the year		28.7	21.2	148.8	111.6	310.3
Impairment	(vi)	1.6	-	12.2	31.4	45.2
Valuation adjustment	(ii)	-	(109.1)	(207.3)	-	(316.4)
Disposals		(13.4)	(0.5)	(23.6)	(79.7)	(117.2)
Disposal of Thus	29	(2.6)	-	(70.2)	(58.9)	(131.7)
At 31 March 2002		224.4	-	1,083.7	356.8	1,664.9
Net book value:						
At 31 March 2002		1,010.2	826.4	3,693.1	471.0	6,000.7
At 31 March 2001		928.5	1,086.5	3,996.4	602.0	6,613.4

<i>Historical cost analysis</i>	2002 £m	2001 £m
Cost	7,611.6	8,336.1
Depreciation based on cost	(1,656.4)	(1,939.8)
Net book value based on cost	5,955.2	6,396.3

Company Year ended 31 March 2002	Notes	Land and buildings £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost:					
At 1 April 2001		372.7	2,928.8	523.7	3,825.2
Transfers	23	(358.4)	(2,983.1)	(290.8)	(3,632.3)
Additions		1.0	78.8	35.6	115.4
Disposals		(8.3)	(23.6)	(108.8)	(140.7)
At 31 March 2002		7.0	0.9	159.7	167.6
Depreciation:					
At 1 April 2001		199.1	998.6	268.6	1,466.3
Transfers	23	(198.1)	(1,029.9)	(135.8)	(1,363.8)
Charge for the year		3.8	25.7	52.7	82.2
Impairment	(vi)	1.6	12.2	31.4	45.2
Disposals		(2.1)	(6.3)	(119.1)	(127.5)
At 31 March 2002		4.3	0.3	97.8	102.4
Net book value:					
At 31 March 2002		2.7	0.6	61.9	65.2
At 31 March 2001		173.6	1,930.2	255.1	2,358.9

Included in the cost or valuation of tangible fixed assets above are:	Notes	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
Assets in the course of construction		798.2	670.1	-	24.0
Other assets not subject to depreciation	(iv)	94.6	101.3	-	60.8
Grants and contributions in respect of water infrastructure assets		(42.2)	(33.0)	-	-
Capitalised interest	(v)	113.4	82.9	-	8.0

(i) The impairment of assets of £449.3 million represents the provision for loss on disposal of Southern Water.

(ii) The valuation adjustment represents elimination of the accumulated depreciation on the tangible fixed assets of Southern Water which have been impaired.

(iii) The Manweb distribution and Southern Water operational assets were revalued by the directors on 30 September 1997 on a market value basis. The valuation of the Manweb distribution assets has not been and will not be updated, as permitted under the transitional provisions of FRS 15 'Tangible fixed assets'. The net book value of tangible fixed assets included at valuation at 31 March 2002 relates to Manweb distribution assets and was £599.6 million (2001 £2,198.1 million including Southern Water operational assets).

(iv) Other assets not subject to depreciation are land. Land and buildings held by the group and company are predominantly freehold.

(v) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 7% (2001: 8%).

(vi) Assets which were impaired in 2002 were valued on the basis of their estimated recoverable amounts. The impairment charge for the year ended 31 March 2002 of £494.5 million has been charged to the profit and loss account as follows: cost of sales £13.0 million, loss on disposal of and withdrawal from Appliance Retailing £32.2 million and provision for loss on disposal of Southern Water £449.3 million.

11 Fixed asset investments

	Notes	Subsidiary undertakings Shares £m	Joint ventures Shares £m	Loans £m	Associated undertakings Shares £m	Shares in parent company held in trust £m	Other investments £m	Total £m
Group								
Cost or valuation:								
At 1 April 2001		-	18.8	25.0	5.0	35.4	27.3	111.5
Additions		-	-	16.1	-	6.1	0.2	22.4
Share of retained (loss) /profit		-	(2.4)	(0.5)	0.2	-	-	(2.7)
Disposals and other		-	(16.3)	(3.8)	-	(15.5)	(0.7)	(36.3)
Disposal of Thus	29	-	-	-	-	-	(24.2)	(24.2)
At 31 March 2002		-	0.1	36.8	5.2	26.0	2.6	70.7
Company								
Cost or nominal value:								
At 1 April 2001		1,620.2	23.3	34.4	-	35.4	2.8	1,716.1
Transfers	23	335.9	(15.3)	(19.1)	-	-	(2.4)	299.1
Additions		179.0	-	-	-	6.1	0.3	185.4
Impairment		(40.3)	-	-	-	-	-	(40.3)
Disposals and other		(1,380.9)	(8.0)	(10.8)	-	(15.5)	-	(1,415.2)
Disposal of Thus	(i)	(121.5)	-	-	-	-	-	(121.5)
At 31 March 2002		592.4	-	4.5	-	26.0	0.7	623.6

Shares held in parent company under trust

	Note	Dividends waived	Shares held at 31 March 2001 (000s)	Market Value at 31 March 2001 £m	Shares held at 31 March 2002 (000s)	Market Value at 31 March 2002 £m
ScottishPower Sharesave Schemes	(ii)	Yes	8,313	38.9	2,414	8.7

(i) The company disposed of its investment in Thus plc to Scottish Power plc on 28 January 2002.

(ii) The ScottishPower Sharesave Scheme is savings related and under normal circumstances share options are exercisable on completion of three, five or seven year save-as-you-earn contracts as appropriate.

The principal subsidiary undertakings, joint ventures and associated undertakings are listed on page 36.

12 Stocks

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Raw materials and consumables	32.2	40.6	-	28.8
Fuel stocks	6.3	5.6	-	5.6
Work in progress	21.7	8.2	-	0.9
Finished goods and goods for resale	1.2	50.1	-	48.6
	61.4	104.5	-	83.9

13 Debtors

	Note	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
(a) Amounts falling due within one year:					
Trade debtors		317.5	309.0	4.8	119.6
Amounts receivable under finance leases	(i)	0.1	0.3	-	-
Prepayments and accrued income		260.5	306.2	66.5	247.3
Amounts owed from group companies		9.8	24.6	1,023.6	942.3
Other debtors		49.4	52.7	49.1	33.1
		637.3	692.8	1,144.0	1,342.3
(b) Amounts falling due after more than one year:					
Amounts owed from group companies		67.6	-	2,757.3	990.6
Other debtors		34.7	-	34.7	-
Amounts receivable under finance leases	(i)	4.2	2.2	-	-
		743.8	695.0	3,936.0	2,332.9

(i) Amounts receivable under finance leases relate to SP Transmission Limited (2001 ScottishPower Leasing Limited) both of which are subsidiaries of the company. The total cost of assets acquired during the year for letting under leases was £nil (2001 £3.5 million). Total amounts receivable during the year under finance leases were £0.1 million (2001 £0.4 million).

14 Loans and other borrowings

Details of the group's objectives, policies and strategy with regard to financial instruments and risk management are contained within the Report of the Directors on pages 1 to 9. The analyses of financial instruments in this Note do not include short-term debtors and creditors as permitted by FRS 13.

(a) Analysis by instrument	Notes	Weighted average interest rate		Group		Company	
		2002	2001	2002 £m	2001 £m	2002 £m	2001 £m
Bank overdraft		-	-	11.0	23.6	-	-
Uncommitted bank loans		5.0%	6.0%	212.9	96.0	212.9	96.0
Commercial paper	(i)	5.0%	6.0%	195.0	203.8	195.0	203.8
Medium-term notes/private placements	(ii)	5.6%	6.5%	1,245.1	1,151.3	1,245.1	1,151.3
Loan notes	(iii)	4.9%	6.2%	5.9	9.1	5.9	6.0
European Investment Bank loans	(iv)	6.8%	7.2%	328.4	342.8	129.2	342.8
5.875% euro-US dollar bond 2003		7.0%	6.9%	183.5	183.4	183.5	183.4
Variable coupon bond 2008		6.9%	6.9%	99.8	99.7	-	-
5.250% deutschmark bond 2008		6.8%	6.8%	245.7	245.7	245.7	245.7
6.625% euro-sterling bond 2010		6.7%	6.6%	198.2	198.1	198.2	198.1
Variable rate Australian dollar bond 2011		5.7%	-	233.8	-	233.8	-
8.375% euro-sterling bond 2017		8.4%	8.4%	197.5	197.1	197.5	197.1
6.750% euro-sterling bond 2023		6.8%	6.8%	247.1	247.1	247.1	247.1
Amounts due to group companies		4.9%	-	193.5	-	193.5	-
				3,597.4	2,997.7	3,287.4	2,871.3

All borrowings are unsecured.

(i) Commercial paper

Scottish Power UK plc has an established US\$2.0 billion (2001 US\$2.0 billion) euro-commercial paper programme. Paper is issued in a range of currencies and swapped back into sterling. Amounts borrowed under the commercial paper programme are repayable in less than one year.

(ii) Medium-term notes/private placements

Scottish Power UK plc has an established US\$7.0 billion (2001 US\$4.0 billion) euro-medium-term note programme. Paper is issued in a range of currencies and swapped back into sterling. As at 31 March 2002, maturities range from 1 to 38 years.

(iii) Loan notes

All loan notes are redeemable at the holders discretion. Ultimate maturity dates range from 2002 to 2006.

(iv) European Investment Bank loans

These loans incorporate agreements with various interest rates and maturity dates. The maturity dates of these arrangements range from 2006 to 2011. Following the sale of Aspen 4 Limited (the holding company of Southern Water plc) in April 2002, the EIB loans relating to Southern Water were repaid.

(b) Fair value of financial liabilities	At 31 March 2002		At 31 March 2001	
	Book amount £m	Fair value £m	Book amount £m	Fair value £m
Short-term debt and current portion of long-term debt	1,105.9	1,105.9	405.5	405.5
Long-term debt	2,521.4	2,602.4	2,626.9	2,678.9
Cross currency interest rate swaps	(29.9)	(31.3)	(34.7)	(25.5)
Total debt	3,597.4	3,677.0	2,997.7	3,058.9
Interest rate swaps	-	22.6	-	54.8
Interest rate swaptions	4.0	1.4	4.0	1.9
Forward rate agreements	-	-	-	0.1
Forward contracts	-	0.3	-	(3.2)
Energy hedge contracts	0.5	1.0	-	-
Energy trading contracts	(0.4)	(0.4)	0.3	0.3
Total financial liabilities	3,601.5	3,701.9	3,002.0	3,112.8

The assumptions used to estimate fair values of debt and other financial instruments are summarised below:

- For short-term borrowings (uncommitted borrowing, commercial paper and short-term borrowings under the committed facilities) the book value approximates to fair value because of their short maturities.
- The fair values of all quoted euro bonds are based on their closing clean market price converted at the spot rate of exchange as appropriate.
- The fair values of the European Investment Bank loans have been calculated by discounting their future cash flows at market rates adjusted to reflect the redemption adjustments allowed under each agreement.
- The fair values of unquoted debt have been calculated by discounting the estimated cash flows for each instrument at the appropriate market discount rate in the currency of issue in effect at the balance sheet date.
- The fair values of the sterling interest rate swaps, sterling forward rate agreements and sterling interest rate caps have been estimated by calculating the present value of estimated cash flows.
- The fair values of the sterling interest rate swaptions are estimated using the sterling yield curve and implied volatilities as at 31 March.
- The fair values of the cross currency interest rate swaps have been estimated by adding the present values of the two sides of each swap. The present value of each side of the swap is calculated by discounting the estimated future cash flows for that side, using the appropriate market discount rates for that currency in effect at the balance sheet date.
- The fair values of the forward contracts are estimated using market forward exchange rates on 31 March.
- The fair values of gas futures are the margin calls under those contracts.

(c) Maturity analysis	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Repayments fall due as follows:				
Within one year, or on demand	1,069.5	401.7	1,058.5	375.0
After more than one year	2,527.9	2,596.0	2,228.9	2,496.3
	3,597.4	2,997.7	3,287.4	2,871.3
Repayments due after more than one year are analysed as follows:				
Between one and two years	101.7	337.4	101.7	337.4
Between two and three years	69.6	118.4	69.6	118.4
Between three and four years	142.8	97.5	142.8	97.5
Between four and five years	100.0	161.4	100.0	161.4
More than five years	2,113.8	1,881.3	1,814.8	1,781.6
	2,527.9	2,596.0	2,228.9	2,496.3

Scottish Power UK plc
Notes to the Balance Sheets
as at 31 March 2002

14 Loans and other borrowings - continued

(d) Interest rate analysis	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed/ capped at 31 March		Weighted average period for which interest rate is fixed/capped	
	2002	2001	2002	2001	2002	2001
	£m	£m	%	%	Years	Years
Fixed rate borrowings	1,920.2	2,090.1	6.9	7.1	10	10
Capped rate borrowings	-	150.0	-	7.0	-	1
Floating rate borrowings	1,677.2	757.6				
	3,597.4	2,997.7				

All amounts in the analysis above are payable in sterling and take into account the effect of interest rate swaps and caps and currency swaps. Floating rate borrowings bear interest at rates based on LIBOR. The average interest rate on short-term borrowings as at 31 March 2002 was 4.3% (2001 6.0%).

Based on the floating rate net debt of £1,677.2 million at 31 March 2002 (2001 £757.6 million), a 100 base point change in interest rates would result in a £16.8 million change in (loss)/profit before tax for the year (2001 £7.6 million change).

(e) Financial assets

	At 31 March		Weighted average interest rate at which financial assets are fixed at 31 March		Weighted average period for which interest rate is fixed	
	2002	2001	2002	2001	2002	2001
	£m	£m	%	%	Years	Years
Fixed rate financial assets	7.4	11.4	8.4	6.5	7	4
Floating rate financial assets	219.0	121.1				
	226.4	132.5				

The floating rate financial assets are principally cash deposits. Floating rate investments pay interest at rates based on LIBOR. The average interest rate on short-term financial assets as at 31 March 2002 was 3.7% (2001: 6.1%).

The fair values of the financial assets are not materially different from their book values.

(f) Borrowing facilities

The group has the following undrawn committed floating rate borrowing facilities at 31 March 2002 in respect of which all conditions precedent have been met. During the financial year Scottish Power UK plc renewed its £1,000 million revolving credit facility that was outstanding and undrawn as at 31 March 2001.

	At 31 March	
	2002	2001
	£m	£m
Expiring within one year	-	1,000.0
Expiring between two and five years	1,000.0	-

Commitment fees on the above facilities were £4.1 million (2001 £2.6 million).

Following completion of the sale of Southern Water in April 2002, the £1,000 million Revolving Credit Facility, included in the table above, was cancelled.

14 Loans and other borrowings - continued

(g) Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Note	Gains £m	Losses £m	Total net gains/ losses £m
Unrecognised gains and (losses) on hedges at 1 April 2000		32.1	(76.4)	(44.3)
Transfer from gains to losses	(i)	(5.8)	5.8	-
Transfer from losses to gains	(i)	(4.5)	4.5	-
(Gains) and losses arising in previous years that were recognised in 2000/01		2.8	16.3	19.1
Gains and (losses) arising before 1 April 2000 that were not recognised in 2000/01		24.6	(49.8)	(25.2)
Gains and (losses) arising in 2000/01 that were not recognised in 2000/01		83.1	(116.7)	(33.6)
Unrecognised gains and (losses) on hedges at 31 March 2001		107.7	(166.5)	(58.8)
Gains and (losses) expected to be recognised in 2001/02		(4.6)	(20.9)	(25.5)
Gains and (losses) expected to be recognised in 2002/03 or later		112.3	(145.6)	(33.3)

(i) Figures in the table above are calculated by reference to the 31 March 2001 fair value of the derivative concerned.

	Note	Gains £m	Losses £m	Total net gains/ losses £m
Unrecognised gains and (losses) on hedges at 1 April 2001		107.7	(166.5)	(58.8)
Transfer from gains to losses	(ii)	(0.2)	0.2	-
Transfer from losses to gains	(ii)	(0.1)	0.1	-
(Gains) and losses arising in previous years that were recognised in 2001/02		2.9	8.6	11.5
Gains and (losses) arising before 1 April 2001 that were not recognised in 2001/02		110.3	(157.6)	(47.3)
Gains and (losses) arising in 2001/02 that were not recognised in 2001/02		(88.4)	116.3	27.9
Unrecognised gains and (losses) on hedges at 31 March 2002		21.9	(41.3)	(19.4)
Gains and (losses) expected to be recognised in 2002/03		5.5	3.6	9.1
Gains and (losses) expected to be recognised in 2003/04 or later		16.4	(44.9)	(28.5)

(ii) Figures in the table above are calculated by reference to the 31 March 2002 fair value of the derivative concerned.

(h) Fair value of financial assets and liabilities held for trading

	2002 £m	2001 £m
Net realised and unrealised gains/(losses) included in profit and loss account	0.4	(0.3)
Fair value of financial assets held for trading at 31 March	0.5	-
Fair value of financial liabilities held for trading at 31 March	(0.1)	(0.3)

A limited amount of proprietary trading within the limits and guidelines of the risk management framework is undertaken.

(i) Currency exposures

The Group did not hold material net monetary assets or liabilities in currencies other than sterling at 31 March 2002 and 31 March 2001.

15 Other creditors

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts falling due within one year:				
Trade creditors	83.9	138.7	5.4	96.5
Corporate tax	55.8	138.7	36.2	50.7
Other taxes and social security	19.6	11.6	6.1	16.3
Payments received on account	29.3	28.7	-	2.2
Capital creditors and accruals	135.4	234.1	1.6	70.1
Other creditors	126.0	28.6	83.0	5.5
Accrued expenses	524.6	591.6	330.7	356.3
Amounts due to group companies	211.6	903.5	201.2	1,233.1
	1,186.2	2,075.5	664.2	1,830.7

16 Provisions for liabilities and charges - Other provisions

Notes	At 1 April 2001 £m	Transfers (Note 23) £m	Disposal of Thus (Note 29) £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	At 31 March 2002 £m
Group							
Reorganisation and restructuring (a)	33.8	-	-	18.5	-	(22.9)	29.4
Environmental and health (b)	12.2	-	-	-	0.6	(2.6)	10.2
Decommissioning costs (c)	6.7	-	-	-	0.4	-	7.1
Onerous contracts (d)	244.1	-	-	-	8.5	(67.3)	185.3
Disposal of and withdrawal from Appliance Retailing (e)	-	-	-	50.8	-	(43.5)	7.3
Other (f)	5.3	-	(0.1)	5.1	-	(1.1)	9.2
	302.1	-	(0.1)	74.4	9.5	(137.4)	248.5
Company							
Reorganisation and restructuring (a)	18.6	(2.3)	-	4.6	-	(14.7)	6.2
Environmental and health (b)	9.0	(6.9)	-	-	-	(2.1)	-
Decommissioning costs (c)	6.7	(6.8)	-	0.1	-	-	-
Onerous contracts (d)	244.1	(217.0)	-	-	7.5	(34.6)	-
Disposal of and withdrawal from Appliance Retailing (e)	-	-	-	50.8	-	(43.5)	7.3
Other (f)	5.1	0.5	-	-	-	-	5.6
	283.5	(232.5)	-	55.5	7.5	(94.9)	19.1

(a) The provisions for reorganisation and restructuring comprise the estimated costs of restructuring the group's businesses following the regulatory price reviews in the United Kingdom electricity and water industries announced in November 1999 and reorganisation provisions established in 2001/02 for the UK division - Generation, Trading and Supply. The provisions are principally in respect of severance costs, most of which are expected to be incurred in the period up to March 2004. The reorganisation provision established in 2001/02 for the UK Division - Generation, Trading and Supply will result in a reduction in employee numbers of approximately 500 from 2002/03 onwards.

(b) The environmental and health provisions include:

(i) costs which will be incurred in the United Kingdom in complying with Health and Safety requirements, most of which are expected to be incurred in the period to 31 March 2010;

(ii) obligations to ensure former operational sites in the UK remain in an environmentally safe condition, the costs of which are expected to be incurred in the period to 31 March 2003.

(c) The provision for decommissioning costs is the discounted future estimated costs of decommissioning the group's power plants. The decommissioning of these plants is expected to occur over the period between 2010 and 2020.

(d) The provision for onerous contracts comprises the costs of contracted energy purchases. The costs provided are expected to be incurred in the period up to 31 March 2009 as follows: less than 1 year £26.6 million, between 1 and 2 years £35.3 million, between 2 and 5 years £86.6 million, and the remainder after 5 years £36.8 million.

(e) The Appliance Retailing provision comprises closure costs, principally property lease termination premia, expected to be incurred in the period up to 2004.

(f) The Other category comprises various provisions which are not individually sufficiently material to warrant separate disclosure.

17 Provisions for liabilities and charges - Deferred tax

Deferred taxation provided in the Accounts is as follows:

	Provided			
	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Accelerated capital allowances	895.7	843.6	(3.9)	314.5
Other timing differences	(54.5)	(53.2)	6.7	(5.8)
Total	841.2	790.4	2.8	308.7

	Notes	Group 2002 £m	Company 2002 £m
Deferred tax provided at 1 April 2001		790.4	308.7
Transfers	23	-	(320.1)
Charge to profit and loss account	6	52.7	14.2
Other movements		(1.9)	-
Deferred tax provided at 31 March 2002		841.2	2.8

18 Deferred income

	At 1 April 2001 £m	Transfers (Note 23) £m	Receivable during year £m	Released to profit and loss account £m	Disposal £m	At 31 March 2002 £m
Grants and customer contributions						
- Group	477.2	-	45.5	(17.0)	(0.1)	505.6
- Company	251.0	(265.0)	18.8	(4.8)	-	-

Deferred income excludes grants and contributions received in respect of water infrastructure assets.

19 Share capital

	2002 £m	2001 £m
Authorised:		
3,000,000,002 (2001 3,000,000,002) ordinary shares of 50p each	1,500.0	1,500.0
	1,500.0	1,500.0
Allotted, called up and fully paid:		
1,183,983,102 (2001 1,183,983,102) ordinary shares of 50p each	592.0	592.0
	592.0	592.0

20 Analysis of movements in shareholders' funds

	Notes	Number of Shares 000s	Share capital £m	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Group								
At 1 April 2001		1,183,983	592.0	398.2	217.1	8.2	(204.4)	1,011.1
Retained loss for the year		-	-	-	-	-	(1,006.8)	(1,006.8)
Goodwill realised on disposals	(b)	-	-	-	-	-	753.3	753.3
Goodwill realised on disposal of Thus	29	-	-	-	-	-	14.7	14.7
Revaluation surplus realised		-	-	-	(3.4)	-	3.4	-
Fixed asset revaluation gains realised on disposal		-	-	-	(168.2)	-	168.2	-
Balance at 31 March 2002		1,183,983	592.0	398.2	45.5	8.2	(271.6)	772.3
Company								
At 1 April 2001		1,183,983	592.0	398.2	-	8.2	78.2	1,076.6
Retained loss for the year	(c)	-	-	-	-	-	(324.1)	(324.1)
Goodwill realised on disposals	(b), (d)	-	-	-	-	-	15.1	15.1
Balance at 31 March 2002		1,183,983	592.0	398.2	-	8.2	(230.8)	767.6

(a) Cumulative goodwill written off to reserves as at 31 March 2002 was £572.3 million (2001 £1,349.9 million).

(b) The goodwill realised on disposals relates to Appliance Retailing (£15.1 million) and Southern Water (£738.2 million).

(c) The retained loss for the year of the company of £324.1 million includes a net credit, after taxation, of £35.8 million principally relating to adjustments of allocations of income and costs between group companies in prior years. The adjustments have no effect on the consolidated results or financial position of the group in either the current or previous years.

(d) The goodwill realised on disposal of £15.1 million represents the goodwill arising on the acquisition of retail outlets from the receivers of Clydesdale Group plc in 1994. This goodwill had previously been written off to reserves in both the company and the group.

21 Company profit and loss account

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit and loss account was approved by the Board on 1 May 2002. The loss for the financial year per the Accounts of the company was £324.1 million (2001: Profit £184.5 million).

22 Minority interests

	Note	2002 £m	2001 £m
At 1 April		127.9	161.4
Additions		1.0	-
Disposals		2.2	-
Disposal of Thus	29	(100.3)	-
Profit and loss account		(29.6)	(33.5)
At 31 March		1.2	127.9

23 Business separation

On 1 October 2001, as a result of and pursuant to provisions in the Utilities Act 2000, administered by the Department of Trade and Industry (DTI), the Generation, Power Systems and Energy Supply businesses were lived down into separate legal entities, under ownership of Scottish Power UK plc. Certain assets and liabilities relating to these businesses were therefore transferred from the company. The detail of these transfers are shown below:

	Notes	Book value at 1 October 2001 £m
Intangible fixed assets - Goodwill	9	94.3
Tangible fixed assets	10	2,268.5
Investments	11	(299.1)
Stocks		64.7
Debtors		(516.4)
Short term bank and other deposits		(74.7)
Creditors: amounts falling due within one year		
- Loans and other borrowings		1.9
- Other creditors		(245.0)
Creditors: amounts falling due after more than one year		
- Loans and other borrowings		(188.7)
Provisions for liabilities and charges		
- Other provisions	16	(232.5)
- Deferred tax	17	(320.1)
Deferred income	18	(265.0)
Net assets transferred		287.9
Satisfied by:		
Group loans received		287.9

In line with provisions of the Utilities Act 2000, all assets and liabilities were transferred at book value. This resulted in neither a gain nor a loss for the company.

24 Pensions

At 31 March 2002, ScottishPower UK plc had six statutorily approved defined benefit pension schemes and one statutorily approved defined contribution scheme. Details of the principal schemes are set out below:

Pension fund	Scheme type	Funded or unfunded	Pension charge for the year		Prepayment as at 31 March	
			2002 £m	2001 £m	2002 £m	2001 £m
ScottishPower	Defined benefit	Funded	-	-	5.0	5.0
Manweb	Defined benefit	Funded	3.6	4.3	-	-
Southern Water	Defined benefit	Funded	4.1	3.7	-	-
Final Salary LifePlan	Defined benefit	Funded	3.4	3.0	-	-

The individual scheme funding details and assumptions made are as follows:

Pension fund	Latest full actuarial valuation	Valuation carried out by	Value of assets based on valuation £m	Market value of assets £m	Valuation method adopted	Principal actuarial assumptions			Value of fund assets/ accrued benefits
						Average investment rate of return	Average salary increases	Average pension increases	
ScottishPower	31 March 2000	William M Mercer	1,930.4	2,090.4	Projected unit	6.0%	4.5%	2.5%	129%
Manweb	31 March 2001	Bacon & Woodrow	640.8	623.6	Projected unit	6.8%*	4.3%	2.5%	111%
Southern Water	31 March 2001	Watson Wyatt	296.0	296.0	Projected unit	6.2%	4.5%	2.5%	107%
Final Salary LifePlan	31 March 1999	William M Mercer	0.1	0.1	Projected unit	5.5%	4.0%	2.5%	97%

* 4.8% post-retiral

(a) Group pension arrangements

Following a review of the group's pension arrangements, the ScottishPower Pension Scheme, Manweb Scheme and Southern Water Pension Scheme were closed to new members from 31 December 1998.

The group introduced two new pension plans for new UK employees effective from 1 January 1999. The new plans are a defined benefit plan (Final Salary LifePlan) and a defined contribution plan (Money Purchase LifePlan) which are open to continuous contract employees aged between 16 and 60.

(b) ScottishPower

Scottish Power UK plc operates a funded pension scheme of the company providing defined retirement and death benefits based on final pensionable salary. This scheme was open prior to 1 January 1999 to employees of ScottishPower. Members are required to contribute to the Scheme at a rate of 5% of pensionable salary. Scottish Power UK plc meets the balance of cost of providing benefits, and company contributions paid are based on the results of the actuarial valuation of the Scheme and are agreed by Scottish Power UK plc and the Scheme Trustees.

The assets of the Scheme are held separately from those of the company in a trustee administered fund. Included in the Scheme assets are 133,602 ScottishPower shares (£480,967 based on market value as at 31 March 2002), purchased only as part of a pooled strategy to match the relative weightings in the UK Stock Exchange index.

The pension charge for the year is based on the advice of the Scheme's independent qualified actuary and is calculated using the same assumptions as those used at the last actuarial valuation of the Scheme. The scheme assets have been taken at an adjusted market value.

The prepayment included in the balance sheet represents the accumulated excess of the actual contributions paid to the Scheme over the pension accounting charge. The net pension charge is set to a minimum of £nil which is derived from a regular cost of 19.8% of salaries, fully offset by a variation credit. The variation credit is calculated as the assessed surplus, less the prepayment, spread as a fixed percentage of pensionable salary roll over nine years.

The actual contributions payable by participating employers during the year were £nil, except where required by a business transfer agreement. There are no planned changes to employer contribution requirements.

24 Pensions continued

(c) Manweb

Prior to 1 January 1999, most of the Manweb employees were entitled to join the Manweb Group of the Electricity Supply Pension Scheme, which provides pension and other related benefits based on final pensionable pay to employees throughout the Electricity Supply Industry in England and Wales. The ongoing contributions to the Scheme are based on the results of the actuarial valuation of the Scheme and the advice of the Scheme Actuary.

The assets are held in a separate trustee administered fund. The Scheme assets no longer include any ScottishPower shares. For funding and expensing purposes, the scheme assets are valued by discounting the income which can be expected from a national portfolio of assets at the valuation rate of interest.

The most recent formal funding valuation was carried out as at 31 March 2001. However, the results and recommendations of this valuation were not completed and implemented until 1 April 2002. Consequently the actual funding amounts payable and the corresponding expensing amounts for the year ended 31 March 2002 have been calculated using the assumptions of the 1998 actuarial valuation of the scheme. The 1998 assumptions are detailed as follows:

1998 valuation assumptions

Value of plan assets	£467.6m
Market value of assets	£613.7m
Valuation method adopted	Projected unit
Average investment rate of return	8.5%
Average salary increases	6.5%
Average pension increases	4.5%
Average equity dividend growth	4.75%
Value of fund assets/accrued benefits	105%

The pension charge for the year, of 12% of pensionable salaries, is based on the advice of the Scheme's independent qualified actuary and is calculated using the 1998 assumptions detailed above. Based on the results of the 2001 valuation, the pension charge in respect of future benefits accruing is 14% of pensionable salary. However, due to the surplus revealed in the 2001 valuation, the company will take a contribution holiday which will continue until the results of the next actuarial valuation. The variation credit is calculated as a spreading of the combination of the assessed surplus and Early Retirement Deficiency Costs payable over 14 years.

The actual contributions payable by participating employers during the year were 12% of pensionable salaries adjusted as described above or as required by a business transfer agreement. The employer contribution rate changed with effect from 1 April 2002 to 8% (except as required by a business transfer agreement).

(d) Southern Water

Southern Water operates a funded pension scheme. The Scheme details above relate to the principal defined benefit scheme which covers the majority of the Southern Water employees. Members are required to contribute to the Scheme at varying rates of pensionable salary depending upon category of membership. The company meets the balance of the cost of the accruing benefits. Contributions paid are based on the results of the actuarial valuation of the Scheme and are agreed by the company and the Scheme Trustees.

The assets are held in a separate trustee administered fund. For funding and expensing purposes, the scheme assets are valued by discounting the income which can be expected from a notional portfolio of assets at the valuation rate of interest.

The pension charge for the year of 10.0% of pensionable salaries plus employer augmentation costs, is based on the advice of the Scheme's independent qualified actuary and is calculated using the same assumptions as at the last actuarial valuation of the Scheme. The variation credit is calculated as the assessed surplus spread over 17 years.

The actual contributions payable by participating employers during the year were 11.4% of pensionable salaries, except where required by a business transfer agreement. This rate will continue with effect from 1 April 2002 following the formal actuarial valuation of the scheme as at 31 March 2001.

(e) Final Salary LifePlan

The group operates a funded pension scheme providing defined retirement and death benefits based on final pensionable salary for eligible UK employees of the group. The assets of the LifePlan are held in a separate trustee administered fund. The pension charge for the year, of 11.4% of pensionable salaries, is based on the advice of the LifePlan's independent qualified actuary, representing the assessed balance of cost of the accruing benefits after allowing for members' contributions of 5% of pensionable salaries. The same actuarial assumptions have been adopted for both funding and expensing purposes.

The actual contributions payable by participating employers during the year were 10% of pensionable salaries, except where required by a business transfer agreement. There are no planned changes to employer contribution requirements, although this is subject to the results of the actuarial valuation as at 31 March 2002 when these become known.

(f) Additional pension arrangements

The group operates an approved defined contribution pension scheme (Money Purchase LifePlan) for eligible UK employees. Contributions are paid by the member and employer at fixed rates. The benefits secured at retirement or death reflect each employee's accumulated fund and the cost of purchasing benefits at that time. The assets of the scheme are held in a separate trustee administered fund. The pension charge for the year represents the defined employer contribution and amounted to £0.3 million. The group also operates pension schemes for a number of other groups of employees; details of these have been omitted from the Accounts on the grounds of materiality.

Further details of the group's pension arrangements are disclosed in the 2001/02 Scottish Power plc Annual Report and Accounts/Form 20-F.

24 Pensions continued

(g) Financial Reporting Standard ("FRS") 17 'Retirement Benefits'

The pension figures above comply with the current pension accounting standard, Statement of Standard Accounting Practice (SSAP) 24. A new accounting standard, FRS 17, must be used for the pension figures that will be shown in the accounts at 31 March 2004 and subsequent years. Under transitional arrangements the group is required to disclose the following information about the schemes and the figures that would have been shown under FRS 17 in the balance sheet as at 31 March 2002.

The major assumptions used by the actuary for the pension arrangements were:

	At 31 March 2002
Rate of increase in salaries	4.3% pa
Rate of increase in deferred pensions	2.8% pa
Rate of increase in pensions in payment	2.8% pa
Discount rate	6.0% pa
Inflation assumption	2.8% pa

The assets in the schemes and the expected long-term rates of return were as follows:

	Long-term rates of return expected at 31 March 2002	Value at 31 March 2002 £m
Equities	8.0% pa	1,881.4
Bonds	5.3% pa	551.1
Property	7.0% pa	159.3
Other	3.8% pa	31.0
Total market value of assets		2,622.8
Present value of schemes' past service liabilities		(2,352.1)
Excess of schemes' assets over past service liabilities		270.7
Resulting balance sheet asset*		186.4*
Related deferred tax liability		(55.9)
Net pension asset		130.5

* The balance sheet asset which would have arisen under FRS 17 is lower than the total calculated excess of schemes' assets over past service liabilities, due to part of the ScottishPower Pension Scheme's past service "surplus" being designated as "non-recoverable" in FRS 17 terms and therefore excluded from the balance sheet.

The pension arrangements net pension asset comprises assets (net of deferred tax) of £159.1 million and liabilities (net of deferred tax) of £28.6 million.

If the above FRS 17 pension assets and liabilities (net of deferred tax) were recognised in the balance sheet as at 31 March 2002, the group's net assets and profit and loss reserve would be as follows:

	At 31 March 2002 £m
Net assets	773.5
Reversal of SSAP 24 pensions assets (net of deferred tax)	(3.5)
Net assets excluding FRS 17 pensions assets and liabilities (net of deferred tax)	770.0
FRS 17 pensions assets (net of deferred tax)	159.1
FRS 17 pensions liabilities (net of deferred tax)	(28.6)
Net assets including FRS 17 pensions assets and liabilities (net of deferred tax)	900.5
Profit and loss reserve	(271.6)
Reversal of SSAP 24 net pensions assets (net of deferred tax)	(3.5)
Profit and loss reserve excluding FRS 17 pensions assets and liabilities (net of deferred tax)	(275.1)
FRS 17 pensions assets and liabilities (net of deferred tax)	130.5
Profit and loss reserve including FRS 17 pensions assets and liabilities (net of deferred tax)	(144.6)

Scottish Power UK plc
Notes to the Balance Sheets
as at 31 March 2002

25 Contingent liabilities

Thus Flotation

In November 1999, the group floated a minority stake in its internet and telecommunications business, Thus plc. This gave rise to a contingent liability to corporation tax on chargeable gains, estimated at amounts up to £570 million.

On 19 March 2002, SP plc demerged its residual holding in Thus Group plc (the new holding company of Thus plc). The charge referred to above could still arise, in certain circumstances, before 19 March 2007. Members of the ScottishPower group, including Scottish Power UK plc, have agreed to indemnify Thus Group plc for any such liability, except in circumstances arising without the consent of the ScottishPower group.

Legal proceedings

The group's businesses are parties to various legal claims, actions and complaints, certain of which involve material amounts. Although the group is unable to predict with certainty whether or not the group will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on the group's consolidated Accounts.

26 Financial commitments

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Analysis of annual commitments under operating leases				
Leases of land and buildings expiring:				
Within one year	-	0.4	-	0.2
Between one and two years	0.7	1.4	0.7	0.7
Between two and three years	-	0.4	-	-
Between three and four years	-	0.5	-	-
Between four and five years	-	0.8	-	0.5
More than five years	0.2	27.7	0.2	20.4
	0.9	31.2	0.9	21.8
Other operating leases expiring:				
Within one year	3.9	5.5	2.3	3.3
Between one and two years	3.6	5.4	3.0	4.2
Between two and three years	2.5	5.2	2.3	3.3
Between three and four years	0.7	1.2	0.4	0.5
Between four and five years	0.9	0.8	0.4	0.7
More than five years	0.2	0.4	0.1	0.1
	11.8	18.5	8.5	12.1
		Group	Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
(b) Capital commitments				
Contracted but not provided	219.2	174.6	-	82.0

(c) Other contractual commitments

Under contractual commitments in the UK, the group has the following purchase commitments at 31 March 2002:

	2003	2004	2005	2006	2007	Thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Commitment to purchase in year	789.7	696.3	684.1	270.1	263.1	1,292.2	3,995.5

27 Directors' emoluments

All the directors of the company who served during the year, excluding James Stanley, are also directors of the ultimate holding company, Scottish Power plc. The amounts below represent the directors' remuneration for their services to the Scottish Power plc group as a whole. No non-executive directors of Scottish Power plc were directors of Scottish Power UK plc during the year. It is not possible to apportion the directors' remuneration to each of the group companies to which the directors provide services.

The aggregate amounts paid to the directors were:

	2002	2001
	£'000	£'000
Executive directors		
Basic salary	1,863.8	1,872.7
Bonuses	54.2	-
Benefits in kind	95.6	120.9
Total	2,013.6	1,993.6

(i) 3 directors (2001: 5) exercised share options over Scottish Power plc shares in the year.

(ii) During the year 3 directors (2001: 3) exercised share options under the Scottish Power plc Long Term Incentive Plan.

(iii) 6 directors (2001: 6) have retirement benefits accruing under defined benefit pension schemes.

	2002	2001
	£'000	£'000
Highest paid director		
Basic salary	542.9	522.7
Benefits in kind	27.6	24.2
Total	570.5	546.9

(iv) During the year the highest paid director exercised and received share options under the Scottish Power plc Long Term Incentive Plan. He also received share options under the Executive and Sharesave schemes.

(v) The amount of pension benefit accrued for the highest paid director is £144,159 (2001: £319,200).

28 Related party transactions

(a) Trading transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Sales/(purchases) to/(from) other group companies during the year		Amounts due from/(to) other group companies as at 31 March	
		2002 £m	2001 £m	2002 £m	2001 £m
Sales by related parties					
Scottish Electricity Settlements Limited	50% owned joint venture	5.3	6.2	1.1	1.4
ScotAsh Limited	50% owned joint venture	0.6	0.4	0.2	0.4
South Coast Power Limited	50% owned joint venture	46.5	25.1	3.0	3.5
CeltPower Limited	50% owned joint venture	1.7	1.7	0.3	0.1
Calanais Limited *	50% owned joint venture	-	69.0	-	0.6
Thus**	Subsidiary	6.7	-	12.0	-
Purchases by related parties					
Scottish Electricity Settlements Limited	50% owned joint venture	(0.2)	(0.2)	-	-
ScotAsh Limited	50% owned joint venture	(0.2)	(0.2)	-	(0.2)
South Coast Power Limited	50% owned joint venture	(7.8)	(3.2)	(0.5)	(0.6)
CeltPower Limited	50% owned joint venture	(0.3)	(0.3)	-	-
Calanais Limited*	50% owned joint venture	-	(13.0)	-	(0.8)
Thus**	Subsidiary	(2.4)	-	(5.2)	-
N.E.S.T. Makers Limited	50% owned joint venture	(0.3)	-	-	-

During the year ended 31 March 2002, ScottishPower made management and similar charges to ScotAsh Limited of £0.4 million (2001 £0.2 million).

* On 23 March 2001 the group disposed of its 50% holding in Calanais Limited; as a result it ceased to be a joint venture from this date.

(b) Funding transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Note	Interest payable to other group companies during the year		Amounts due to other group companies as at 31 March	
			2002 £m	2001 £m	2002 £m	2001 £m
Scottish Electricity Settlements Limited	50% owned joint venture		(1.1)	(1.4)	(14.7)	(16.6)
ScotAsh Limited	50% owned joint venture		-	-	(2.4)	(3.0)
South Coast Power Limited	50% owned joint venture		(1.1)	-	(13.5)	-
RoboScot (38) Limited	50% owned joint venture		-	-	(5.4)	(5.4)
Thus**	Subsidiary	(i)	(2.0)	-	(5.4)	-
N.E.S.T. Makers Limited	50% owned joint venture		-	-	(0.8)	-

(i) This balance represents £1.1 million of loans and £4.3 million payable in respect of finance leases.

** On 28 January 2002 the group disposed of its residual holding in Thus. The related party sales and purchases represent those transactions between Scottish Power UK plc and Thus for the period from 29 January to 31 March 2002.

Scottish Power plc has ultimate control over the company. The company has taken an exemption, as allowed by Financial Reporting Standard 8, not to disclose related party transactions with other group companies as the parent company publishes full statutory consolidated Accounts.

29 Thus Group plc disposal

On 28 January 2002, the group disposed of Thus Group plc ("Thus") to Scottish Power plc. Thus' results for the period to 28 January 2002 have been reported under discontinued operations in the Scottish Power UK plc accounts for the year ended 31 March 2002 and the prior year.

	Notes	£m
Intangible fixed assets - goodwill	9	28.8
Tangible fixed assets	10	470.7
Fixed asset investments	11	24.2
Current assets		109.5
Creditors		(374.2)
Provisions for liabilities and charges		
<i>Other provisions</i>	16	(0.1)
Book value of Thus net assets disposed		258.9
Minority interest share of net assets	22	(100.3)
Scottish Power UK plc's share of Thus net assets disposed		158.6
Goodwill previously charged to reserves written back	20	14.7
Sale proceeds (proceeds of £121.5 million, net of expenses of £2.5 million)		(119.0)
Loss on disposal of Thus		54.3

30 Ultimate parent company

Scottish Power UK Limited is a wholly owned subsidiary of Scottish Power plc a company registered in Scotland. Copies of the ultimate parent's consolidated Accounts may be obtained from The Secretary, Scottish Power plc, 1 Atlantic Quay, Glasgow, G2 8SP.

Scottish Power UK plc
Principal Subsidiary Undertakings and Other Investments

Subsidiary undertakings	Class of share capital	Proportion of shares held	Activity
Core Utility Solutions Limited	'A' Ordinary shares £1*	100%	Multi-utility design and construction service
CRE Energy Limited	Ordinary shares £1	100%	Wind-powered electricity generation
ScottishPower Energy Retail Limited	Ordinary shares £1	100%	Supply of electricity and gas to domestic customers
ScottishPower Energy Trading Limited	Ordinary shares £1	100%	Wholesale trading company engaged in purchase and sale of electricity, gas and coal
ScottishPower Energy Trading (Agency) Limited	Ordinary shares £1	100%	Agent for trading activity of ScottishPower Energy Trading Limited and Scottish Power UK plc
ScottishPower Insurance Limited (Isle of Man)	Ordinary shares £1	100%	Insurance
Scottish Power Generation Limited	Ordinary shares £1	100%	Electricity generation
SP Dataserve Limited	Ordinary shares £1	100%	Data collection, data aggregation, meter operation and revenue protection
SP Distribution Limited	Ordinary shares £1	100%	Ownership and operation of distribution network within the ScottishPower area
SP Manweb plc	Ordinary shares 50p	100%	Ownership and operation of distribution network within the Mersey and North Wales area
SP Power Systems Limited	Ordinary shares £1	100%	Provision of asset management services
SP Transmission Limited	Ordinary shares £1	100%	Ownership and operation of transmission network within the ScottishPower area
Southern Water Services Finance plc**	Ordinary shares £1	100%	Finance company
Southern Water Services Limited**	Ordinary shares £1	100%	Water supply and wastewater services

Fixed asset investments

Joint ventures

CeltPower Limited	Ordinary shares £1	50%	Wind-powered electricity generation
N.E.S.T.Makers Limited	Ordinary shares £1	50%	Energy efficient agent for the 'fuel poor'/ benefit market
ScotAsh Limited	Ordinary shares £1	50%	Sales of ash and ash-related cementitious products
Scottish Electricity Settlements Limited	Ordinary shares £1	50%	Scottish electricity settlements
Shoreham Operations Company Limited	Ordinary shares £1	50%	Management services
South Coast Power Limited	Ordinary shares £1	50%	Electricity generation

Associated undertaking

Wind Resources Limited	Ordinary shares £1	45%	Wind-powered electricity generation
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Other investments

Folkestone & Dover Water Services Limited**	Ordinary shares £1	25%	Water supply
	Preference shares £1	22%	
	Deferred shares £1	12%	

* Represents 50% of the total issued share capital.

** These investments were disposed of as a result of the sale of Southern Water on 23 April 2002.

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The information above includes the undertakings whose results or financial position, in the opinion of the directors, principally affect the results or financial position of the group.

All companies are incorporated in Great Britain, unless otherwise stated.

Independent auditors' report to the members of Scottish Power UK plc

We have audited the Accounts on pages 10 to 36 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 10 to 15.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and Accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Directors' Report and Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Accounts. The other information comprises only the Report of the Directors.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether

caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

Opinion

In our opinion the Accounts give a true and fair view of the state of the affairs of the group and company at 31 March 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow
1 May 2002